

**WEST MARSHALL
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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WEST MARSHALL COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Julie Randall	President	2004
Stephen Smith		2006
William Tomlinson		2004
Julie Arnold		2005
Kathy Buschbom		2005
Mark Nolta		2006
Brian Maddick		2006

(After September, 2004 Election)

Mark Nolta	President	2006
Julie Arnold		2005
William Tomlinson		2007
Julie Randall		2007
Kathy Buschbom		2005
Stephen Smith		2006
Brian Maddick		2006

SCHOOL OFFICIALS

Ned Sellers	Superintendent
Christine Davis	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
West Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of West Marshall Community School District, State Center, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of West Marshall Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2005 on our consideration of West Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Marshall Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 3, 2005

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,793,546 in fiscal 2004 to \$5,894,274 in fiscal 2005, while General Fund expenditures increased from \$5,660,022 in fiscal year 2004 to \$6,054,318 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increase Special Education and special instruction program cost such as Title I and at-risk.
- Allowable growth of 4% is inadequate to finance existing programs without dipping into reserves.
- The School Infrastructure Local Option Sales Tax passed in Marshall County in March, 2004. The District began receiving these funds in September, 2004. These monies will be used for property tax relief to pay for the District's debt service in fiscal year 2006. Remaining funds will be used for improvements to district facilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
West Marshall Community School District

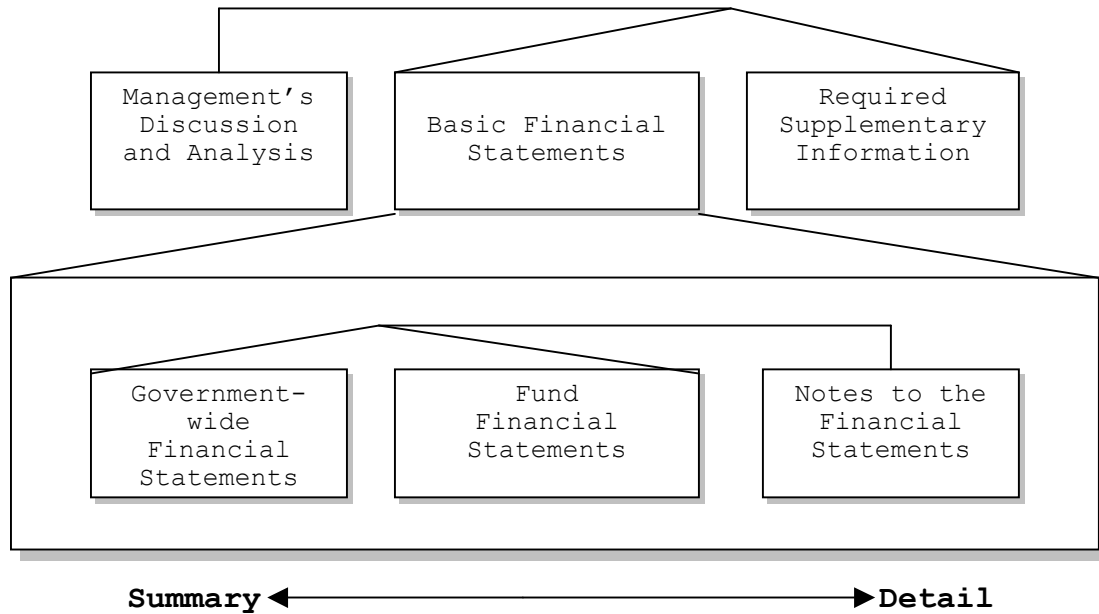


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the district-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	4,049	4,004	97	86	4,146	4,090	1.37%
Capital assets	<u>3,796</u>	<u>3,676</u>	<u>57</u>	<u>60</u>	<u>3,853</u>	<u>3,736</u>	<u>3.13%</u>
Total assets	<u>7,845</u>	<u>7,680</u>	<u>154</u>	<u>146</u>	<u>7,999</u>	<u>7,826</u>	<u>2.21%</u>
Current liabilities	2,086	2,408	-	-	2,086	2,408	-13.37%
Non-current liabilities	<u>2,100</u>	<u>2,332</u>	<u>-</u>	<u>-</u>	<u>2,100</u>	<u>2,332</u>	<u>-9.95%</u>
Total liabilities	<u>4,186</u>	<u>4,740</u>	<u>-</u>	<u>-</u>	<u>4,186</u>	<u>4,740</u>	<u>-11.69%</u>
Net Assets							
Invested in capital assets, net of related debt	1,697	1,361	57	60	1,754	1,421	23.43%
Restricted	406	25	-	-	406	25	1524.00%
Unrestricted	<u>1,556</u>	<u>1,554</u>	<u>97</u>	<u>86</u>	<u>1,653</u>	<u>1,640</u>	<u>0.79%</u>
Total net assets	<u>3,659</u>	<u>2,940</u>	<u>154</u>	<u>146</u>	<u>3,813</u>	<u>3,086</u>	<u>23.56%</u>

Total unrestricted net assets grew only slightly as additional revenues generated by the local option sales tax were offset by decreases in property tax revenues and increased spending.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	257	202	459
Operating grants, contributions and restricted interest	784	122	906
General revenues:			
Property tax	2,127	-	2,127
Income surtax	308	-	308
Local option sales tax	331	-	331
Unrestricted state grants	3,003	-	3,003
Unrestricted investment earnings	40	-	40
Other	127	-	127
Total revenues	<u>6,977</u>	<u>324</u>	<u>7,301</u>
Program expenses:			
Governmental activities:			
Instruction	3,800	-	3,800
Support Services	1,952	-	1,952
Non-instructional programs	-	326	326
Other expenses	505	-	505
Total expenses	<u>6,257</u>	<u>326</u>	<u>6,583</u>
Change in net assets	<u>720</u>	<u>(2)</u>	<u>718</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,976,596 and expenses were \$6,256,663.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	3,800	3,018
Support Services	1,952	1,935
Other expenses	<u>505</u>	<u>262</u>
Totals	<u>6,257</u>	<u>5,215</u>

- The cost financed by users of the District's programs was \$257,498.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$577,905.
- The net cost of governmental activities was financed with \$2,126,432 in property tax, \$3,002,510 in state foundation aid, and \$40,393 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$323,551 and expenses were \$325,504. The District's business-type activities include the School Nutrition and Preschool Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District held meal prices steady. The District spent over \$6,000 on equipment and repairs.

The District began a Preschool program during the year-ended June 30, 2005.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted West Marshall Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,659,180, a 24% increase over last year's ending fund balances of \$2,939,247. The primary reason was the collection of local option sales taxes.

Governmental Fund Highlights

- The District met its operating expenses by using existing reserves.
- The District collected over \$330,000 in sales tax money. This is to be used for property tax relief and infrastructure projects.
- With the available PPEL dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities.

Proprietary Fund Highlights

Administrative control over discretionary spending and food costs allowed for an increase in the Nutrition Fund cash balance. The District was able to purchase over \$6,000 in equipment during the year.

The District initiated a preschool education program.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$241,698 greater than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving less in state aid than originally anticipated, however, this was offset by increased miscellaneous revenues.

Budgeted expenses were greater than anticipated due to the receipt of grant monies and institution of the preschool program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$3.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$211,345.

The original cost of the District's capital assets was \$7,691,896. Governmental funds account for \$7,582,827, with the remainder of \$109,069 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	125	125	-	-	125	125	0.00%
Site improvements	290	153	-	-	290	153	89.54%
Buildings	3,133	3,140	-	-	3,133	3,140	-0.22%
Furniture and equipment	249	258	57	60	306	318	-3.77%
Totals	<u>3,797</u>	<u>3,676</u>	<u>57</u>	<u>60</u>	<u>3,854</u>	<u>3,736</u>	<u>3.16%</u>

Long-Term Debt

At June 30, 2005, the District had \$2,100,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 9% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

Total		Total
District		Change
June 30,		June 30,
2005	2004	2004-2005
\$	\$	
General obligation bonds	2,100	2,315 -9.29%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed and money began to be received by the District in July of 2004. This tax will allow for property tax relief as well as infrastructure projects.
- The District has experienced declining enrollment the past several years.
- Current allowable growth is inadequate to maintain current educational programs.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution needs to be found.
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ned Sellers, Superintendent, West Marshall Community School District, 3rd St NW, PO Box 670, State Center, IA 50247.

Basic Financial Statements

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash	1,777,861	94,039	1,871,900
Receivables:			
Property tax:			
Current year	36,107	-	36,107
Succeeding year	1,964,395	-	1,964,395
Income surtax - succeeding year	145,000	-	145,000
Other receivables	125,674	-	125,674
Inventories	-	3,250	3,250
Capital assets, net of accumulated depreciation	3,796,525	57,259	3,853,784
Total assets	7,845,562	154,548	8,000,110
Liabilities			
Accounts payable	108,741	-	108,741
Salaries and benefits payable	7,535	-	7,535
Accrued interest payable	5,711	-	5,711
Deferred revenue:			
Succeeding year property tax	1,964,395	-	1,964,395
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	220,000	-	220,000
Portion due after one year:			
General obligation bonds payable	1,880,000	-	1,880,000
Total liabilities	4,186,382	-	4,186,382
Net assets			
Invested in capital assets, net of related debt	1,696,525	57,259	1,753,784
Restricted for:			
Management levy	13,154	-	13,154
Student activities	45,854	-	45,854
Physical plant and equipment levy	2,185	-	2,185
Capital projects	330,904	-	330,904
Debt service	14,328	-	14,328
Unrestricted	1,556,230	97,289	1,653,519
Total net assets	3,659,180	154,548	3,813,728

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	2,645,599	189,111	309,457	(2,147,031)	-	(2,147,031)
Special instruction	713,870	68,387	68,247	(577,236)	-	(577,236)
Other instruction	440,202	-	146,709	(293,493)	-	(293,493)
	<u>3,799,671</u>	<u>257,498</u>	<u>524,413</u>	<u>(3,017,760)</u>	<u>-</u>	<u>(3,017,760)</u>
Support services:						
Student services	166,862	-	4,603	(162,259)	-	(162,259)
Instructional staff services	179,497	-	-	(179,497)	-	(179,497)
Administration services	550,338	-	-	(550,338)	-	(550,338)
Operation and maintenance of plant services	562,927	-	771	(562,156)	-	(562,156)
Transportation services	492,275	-	11,165	(481,110)	-	(481,110)
	<u>1,951,899</u>	<u>-</u>	<u>16,539</u>	<u>(1,935,360)</u>	<u>-</u>	<u>(1,935,360)</u>
Other expenditures:						
AEA flowthrough	242,842	-	242,842	-	-	-
Long-term debt interest	70,985	-	-	(70,985)	-	(70,985)
Long-term debt services	116	-	-	(116)	-	(116)
Facilities acquisition and construction	69,659	-	-	(69,659)	-	(69,659)
Depreciation (unallocated) *	121,491	-	-	(121,491)	-	(121,491)
	<u>505,093</u>	<u>-</u>	<u>242,842</u>	<u>(262,251)</u>	<u>-</u>	<u>(262,251)</u>
Total governmental activities	6,256,663	257,498	783,794	(5,215,371)	-	(5,215,371)

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	325,504	201,790	121,761	-	(1,953)
					(1,953)
Total	6,582,167	459,288	905,555	(5,215,371)	(1,953)
					(5,217,324)
General revenues:					
Property tax levied for:					
General purposes			1,655,447	-	1,655,447
Debt service			286,793	-	286,793
Capital outlay			60,170	-	60,170
Management			124,022	-	124,022
Income surtax			307,914	-	307,914
Local option sales tax			330,904	-	330,904
Unrestricted state grants			3,002,510	-	3,002,510
Unrestricted investment earnings			40,393	-	40,393
Other			127,151	-	127,151
Total general revenue			5,935,304	-	5,935,304
Change in net assets			719,933	(1,953)	717,980
Net assets beginning of year			2,939,247	156,501	3,095,748
Net assets end of year			3,659,180	154,548	3,813,728

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash	1,449,185	227,098	15,107	86,471	1,777,861
Receivables:					
Property tax:					
Current year	28,823	-	4,932	2,352	36,107
Succeeding year	1,705,180	-	-	259,215	1,964,395
Income surtax - succeeding year	145,000	-	-	-	145,000
Due from other governments	21,868	103,806	-	-	125,674
Total assets	<u>3,350,056</u>	<u>330,904</u>	<u>20,039</u>	<u>348,038</u>	<u>4,049,037</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	81,111	-	-	27,630	108,741
Salaries and benefits payable	7,535	-	-	-	7,535
Deferred revenue:					
Succeeding year property tax	1,705,180	-	-	259,215	1,964,395
Succeeding year income surtax	145,000	-	-	-	145,000
Total liabilities	<u>1,938,826</u>	<u>-</u>	<u>-</u>	<u>286,845</u>	<u>2,225,671</u>
Fund balances:					
Reserved for debt service	-	-	20,039	-	20,039
Reserved for capital projects	-	330,904	-	-	330,904
Unreserved	1,411,230	-	-	61,193	1,472,423
Total fund balances	<u>1,411,230</u>	<u>330,904</u>	<u>20,039</u>	<u>61,193</u>	<u>1,823,366</u>
Total liabilities and fund balances	<u>3,350,056</u>	<u>330,904</u>	<u>20,039</u>	<u>348,038</u>	<u>4,049,037</u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 1,823,366
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	145,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	3,796,525
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(5,711)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(2,100,000)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 3,659,180</u>

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Capital Projects	Debt Service	Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,820,921	330,904	286,793	184,192	2,622,810
Tuition	230,457	-	-	-	230,457
Other	262,481	-	-	135,433	397,914
State sources	3,502,195	-	-	-	3,502,195
Federal sources	78,220	-	-	-	78,220
Total revenues	<u>5,894,274</u>	<u>330,904</u>	<u>286,793</u>	<u>319,625</u>	<u>6,831,596</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,605,620	-	-	56,903	2,662,523
Special instruction	713,870	-	-	-	713,870
Other instruction	328,761	-	-	111,441	440,202
	<u>3,648,251</u>	<u>-</u>	<u>-</u>	<u>168,344</u>	<u>3,816,595</u>
Support services:					
Student services	166,862	-	-	-	166,862
Instructional staff services	179,497	-	-	-	179,497
Administration services	550,088	-	-	250	550,338
Operation and maintenance of plant services	823,003	-	-	30,761	853,764
Transportation services	443,775	-	-	-	443,775
	<u>2,163,225</u>	<u>-</u>	<u>-</u>	<u>31,011</u>	<u>2,194,236</u>
Other expenditures:					
AEA flowthrough	242,842	-	-	-	242,842
Long-term debt:					
Principal	-	-	215,000	-	215,000
Interest	-	-	71,208	-	71,208
Services	-	-	116	-	116
Facilities acquisition and construction	-	-	-	69,659	69,659
	<u>242,842</u>	<u>-</u>	<u>286,324</u>	<u>69,659</u>	<u>598,825</u>
Total expenditures	<u>6,054,318</u>	<u>-</u>	<u>286,324</u>	<u>269,014</u>	<u>6,609,656</u>
Net change in fund balance	(160,044)	330,904	469	50,611	221,940
Fund balances beginning of year	<u>1,571,274</u>	<u>-</u>	<u>19,570</u>	<u>10,582</u>	<u>1,601,426</u>
Fund balances end of year	<u>1,411,230</u>	<u>330,904</u>	<u>20,039</u>	<u>61,193</u>	<u>1,823,366</u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 221,940

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 145,000

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	323,602
Depreciation expense	(202,756)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds	215,000	
Early retirement	16,924	
		231,924

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

223

Change in net assets of governmental activities (Exhibit B) \$ 719,933

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	
Assets			
Cash	92,564	1,475	94,039
Inventories	3,250	-	3,250
Capital assets, net of accumulated depreciation	57,259	-	57,259
Total assets	<u>153,073</u>	<u>1,475</u>	<u>154,548</u>
Net Assets			
Invested in capital assets, net of related debt	57,259	-	57,259
Unrestricted	95,814	1,475	97,289
Total net assets	<u>153,073</u>	<u>1,475</u>	<u>154,548</u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>181,574</u>	<u>20,216</u>	<u>201,790</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	97,768	-	97,768
Benefits	12,674	-	12,674
Services	3,912	-	3,912
Supplies	177,793	-	177,793
Property	6,027	-	6,027
Depreciation	<u>8,589</u>	<u>-</u>	<u>8,589</u>
	<u>306,763</u>	<u>-</u>	<u>306,763</u>
Other enterprise operations:			
Salaries	-	13,666	13,666
Benefits	-	1,831	1,831
Supplies	<u>-</u>	<u>3,244</u>	<u>3,244</u>
	<u>-</u>	<u>18,741</u>	<u>18,741</u>
Total operating expenses	<u>306,763</u>	<u>18,741</u>	<u>325,504</u>
Operating (loss)	<u>(125,189)</u>	<u>1,475</u>	<u>(123,714)</u>
Non-operating revenues:			
Interest on investments	1,779	-	1,779
State sources	2,856	-	2,856
Federal sources	<u>117,126</u>	<u>-</u>	<u>117,126</u>
	<u>121,761</u>	<u>-</u>	<u>121,761</u>
Change in net assets	(3,428)	1,475	(1,953)
Net assets beginning of year	<u>156,501</u>	<u>-</u>	<u>156,501</u>
Net assets end of year	<u><u>153,073</u></u>	<u><u>1,475</u></u>	<u><u>154,548</u></u>

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

	School Nutrition	Preschool	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	181,574	20,216	201,790
Cash payments to employees for services	(110,442)	(15,497)	(125,939)
Cash payments to suppliers for goods or services	(171,262)	(3,244)	(174,506)
Net cash provided by (used in) operating activities	(100,130)	1,475	(98,655)
Cash flows from non-capital financing activities:			
State grants received	2,856	-	2,856
Federal grants received	102,347	-	102,347
Net cash provided by non-capital financing activities	105,203	-	105,203
Cash flows from capital financing activities:			
Acquisition of fixed assets	(6,003)	-	(6,003)
Cash flows from investing activities:			
Interest on investments	1,779	-	1,779
Net increase in cash and cash equivalents	849	1,475	2,324
Cash and cash equivalents beginning of year	91,715	-	91,715
Cash and cash equivalents end of year	92,564	1,475	94,039
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(125,189)	1,475	(123,714)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	8,589	-	8,589
Commodities used	14,779	-	14,779
Decrease in inventory	1,691	-	1,691
	(100,130)	1,475	(98,655)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	92,564	1,475	94,039

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$14,779.

See notes to financial statements.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The West Marshall Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of State Center, Melbourne, Rhodes and Clemons, Iowa, and agricultural area in Story and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, West Marshall Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The West Marshall Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Preschool Funds. These funds are used to account for the food service and preschool education operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded budgeted amounts in the instruction, student support and non-instructional programs functions during the year ending June 30, 2005.

(2) **Cash Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Capital assets being depreciated:				
Site Improvements	328,667	155,900	35,394	449,173
Buildings	5,987,225	95,399	-	6,082,624
Furniture and Equipment	<u>912,132</u>	<u>72,303</u>	<u>58,405</u>	<u>926,030</u>
Total capital assets being depreciated	<u>7,228,024</u>	<u>323,602</u>	<u>93,799</u>	<u>7,457,827</u>
Less accumulated depreciation for:				
Site Improvements	175,687	19,136	35,394	159,429
Buildings	2,847,704	102,356	-	2,950,060
Furniture and Equipment	<u>653,954</u>	<u>81,264</u>	<u>58,405</u>	<u>676,813</u>
Total accumulated depreciation	<u>3,677,345</u>	<u>202,756</u>	<u>93,799</u>	<u>3,786,302</u>
Total capital assets being depreciated, net	<u>3,550,679</u>	<u>120,846</u>	<u>-</u>	<u>3,671,525</u>
Governmental activities, capital assets, net	<u>3,675,679</u>	<u>120,846</u>	<u>-</u>	<u>3,796,525</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	103,066	6,003	-	109,069
Less accumulated depreciation	<u>43,221</u>	<u>8,589</u>	<u>-</u>	<u>51,810</u>
Business type activities capital assets, net	<u>59,845</u>	<u>(2,586)</u>	<u>-</u>	<u>57,259</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

81,265

121,491

202,756

Business Type activities:

Food service operations

8,589

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$207,921, \$199,211, and \$191,777 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$242,842 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

West Marshall Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District has self-insurance of the deductible for health insurance under an 80/20 plan. The District is liable for each employee's deductible up to \$500 per single and \$1000 for dependent coverage. The District's maximum liability as computed by their insurance carrier is \$49,500 annually (based on current employment levels).

(7) Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u> %	<u>Principal</u> \$	<u>Interest</u> \$	<u>Total</u> \$
2006	2.50	220,000	65,832	285,832
2007	2.75	225,000	60,333	285,333
2008	3.00	230,000	54,145	284,145
2009	3.00	245,000	47,245	292,245
2010	3.20	250,000	39,895	289,895
2011	3.30	260,000	31,895	291,895
2012	3.40	270,000	23,315	293,315
2013	3.50	265,000	14,135	279,135
2014	3.60	<u>135,000</u>	<u>4,860</u>	<u>139,860</u>
Total		<u>2,100,000</u>	<u>341,655</u>	<u>2,441,655</u>

(8) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	<u>General Obligation Bonds</u>
Balance beginning of year	\$2,315,000
Additions	-
Reductions	<u>215,000</u>
Balance end of year	<u>\$2,100,000</u>

(9) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is the cost of single insurance up to \$350 per month. Early retirement benefits paid during the year ended June 30, 2005 totaled \$34,895. The cost of benefits expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund.

Required Supplementary Information

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,251,181	203,569	3,454,750	3,236,963	3,236,963	217,787
State sources	3,502,195	2,856	3,505,051	3,486,486	3,486,486	18,565
Federal sources	78,220	117,126	195,346	190,000	190,000	5,346
Total revenues	<u>6,831,596</u>	<u>323,551</u>	<u>7,155,147</u>	<u>6,913,449</u>	<u>6,913,449</u>	<u>241,698</u>
Expenditures:						
Instruction	3,816,595	-	3,816,595	3,756,965	3,756,965	(59,630)
Support services	2,194,236	-	2,194,236	2,028,307	2,028,307	(165,929)
Non-instructional programs	-	325,504	325,504	312,500	312,500	(13,004)
Other expenditures	598,825	-	598,825	629,279	629,279	30,454
Total expenditures	<u>6,609,656</u>	<u>325,504</u>	<u>6,935,160</u>	<u>6,727,051</u>	<u>6,727,051</u>	<u>(208,109)</u>
Excess (deficiency) of revenues over (under) expenditures	221,940	(1,953)	219,987	186,398	186,398	33,589
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	221,940	(1,953)	219,987	186,398	186,398	33,589
Balance beginning of year	<u>1,601,426</u>	<u>156,501</u>	<u>1,757,927</u>	<u>1,740,900</u>	<u>1,740,900</u>	<u>17,027</u>
Balance end of year	<u><u>1,823,366</u></u>	<u><u>154,548</u></u>	<u><u>1,977,914</u></u>	<u><u>1,927,298</u></u>	<u><u>1,927,298</u></u>	<u><u>50,616</u></u>

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, expenditures exceeded the amounts budgeted in Instruction, support services and non-instructional programs functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	39,364	45,854	1,253	86,471
Property tax receivable:				
Current year	1,420	-	932	2,352
Succeeding year	200,000	-	59,215	259,215
Total assets	<u>240,784</u>	<u>45,854</u>	<u>61,400</u>	<u>348,038</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	27,630	-	-	27,630
Deferred revenue:				
Succeeding year property tax	200,000	-	59,215	259,215
	<u>227,630</u>	<u>-</u>	<u>59,215</u>	<u>286,845</u>
Fund equity:				
Unreserved fund balance	13,154	45,854	2,185	61,193
	<u>13,154</u>	<u>45,854</u>	<u>2,185</u>	<u>61,193</u>
Total liabilities and fund equity	<u>240,784</u>	<u>45,854</u>	<u>61,400</u>	<u>348,038</u>

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	124,022	-	60,170	184,192
Other	686	134,662	85	135,433
Total revenues	124,708	134,662	60,255	319,625
Expenditures:				
Instruction:				
Regular instruction	56,903	-	-	56,903
Co-curricular instruction	-	111,441	-	111,441
Support services:				
Student support services	-	-	-	-
Instructional support services	-	-	-	-
Administration services	250	-	-	250
Plant operation and maintenance	30,761	-	-	30,761
Student transportation	-	-	-	-
Other expenditures:				
Facility acquisition and construction services	-	-	69,659	69,659
Total expenditures	87,914	111,441	69,659	269,014
Excess (deficiency) of revenues over (under) expenditures	36,794	23,221	(9,404)	50,611
Fund balances beginning of year	(23,640)	22,633	11,589	10,582
Balance end of year	13,154	45,854	2,185	61,193

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama	2,075	1,601	868	2,808
Speech	(9)	347	231	107
Trojan Players	74	-	-	74
Elementary Renaissance	2,162	4,084	2,951	3,295
Spanish Club	259	-	15	244
Athletic Memberships	39	300	214	125
Golf	(2,322)	2,029	2,549	(2,842)
Basketball	817	7,639	6,470	1,986
Volleyball	(1,151)	5,069	3,326	592
Football	(2,114)	18,376	15,351	911
Baseball	(3,484)	6,171	5,152	(2,465)
Track	1,146	6,045	4,635	2,556
Wrestling	(567)	6,745	5,096	1,082
District Football	98	-	98	-
Softball	(1,781)	7,943	7,728	(1,566)
High School Activities	956	3,834	3,476	1,314
FFA	11,928	32,785	21,958	22,755
National Honor Society	101	1,101	968	234
Class of 2007	30	-	-	30
Class of 2008	524	-	524	-
HS Cheerleaders	362	1,235	565	1,032
Class of 2005	1,007	524	1,531	-
Class of 2006	100	6,280	4,498	1,882
MS Student Council	2,136	8,197	8,481	1,852
HS Student Council	905	143	591	457
Interest	629	775	563	841
Annual	5,097	7,160	7,573	4,684
FBLA	1,681	-	-	1,681
Ag Day	400	-	-	400
MS Renaissance	787	6,279	5,809	1,257
HS Renaissance	748	-	220	528
Total	22,633	134,662	111,441	45,854

See accompanying independent auditor's report.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source

All Governmental Funds

For the Last Four Years

	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
General	1,820,921	1,997,981	2,023,528	1,948,970
Special revenue/debt service	470,985	447,760	443,303	431,583
Capital projects	330,904	-	-	-
	<u>2,622,810</u>	<u>2,445,741</u>	<u>2,466,831</u>	<u>2,380,553</u>
State sources:				
General	<u>3,502,195</u>	<u>3,351,565</u>	<u>3,286,074</u>	<u>3,269,068</u>
Federal sources:				
General	<u>78,220</u>	<u>108,264</u>	<u>123,698</u>	<u>102,913</u>
Total	<u><u>6,203,225</u></u>	<u><u>5,905,570</u></u>	<u><u>5,876,603</u></u>	<u><u>5,752,534</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
West Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the West Marshall Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Marshall Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of West Marshall Community School District and other parties to whom West Marshall Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of West Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 3, 2005

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

05-I-B Deficit Activity Accounts - We noted that the District had deficits in the majority of its athletic accounts inside the Student Activity Fund.

Recommendation - We recommend that the District investigate alternatives to bringing these accounts into a positive financial balance.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the certified budget amounts in the instruction, student support, and non-instructional programs functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions - No business transactions between the District and District officials or employees.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.